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CENTRAL INTELLIGENCE AGENCY

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Executive Registry
0-5537

20 July 1949

INTELLIGENCE MEMORANDUM NO. 201

SUBJECT: Trieste Developments Afford USSR Exploitable Issue

Yugoslavia's recent move toward consolidating the economy of its Zone of Trieste with that of Yugoslavia proper, as well as the resulting sharp Italian reaction, has placed a sizable obstacle in the path of Italo-Yugoslav rapprochement on Trieste and has thus facilitated possible exploitation of the Trieste issue by the Kremlin in order to embarrass Tito's relations with the West. Specifically, the Yugoslav action consists of the announcement early in July of the substitution of the Yugoslav dinar in place of an occupation currency as the Yugoslav Zone's monetary unit, which is to be implemented by a 500 million dinar (10 million dollar) loan to the Zone.

Tito's precipitous action was taken despite the resultant opportunities for Kremlin exploitation. Among his motives for this are:

- (1) A fear prompted by the Soviet abandonment of Yugoslav claims against Austria that the Kremlin was similarly planning to renounce its support of an international Trieste in favor of the standing Western proposal of March 1948 to return the whole Free Territory to Italy, and
- (2) a consequent desire to strengthen the Yugoslav bargaining position by thus indicating an intention to retain control of Zone B. Yugoslav

Note: This memorandum has not been coordinated with the intelligence organizations of the Departments of State, Army, Navy, and the Air Force.

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anxiety over a possible Soviet move on Trieste arises more from an estimate of the embarrassment to Yugoslav-Western relations, and the loss of prestige attendant upon such a maneuver, than from the prospect of losing Trieste. Yugoslav leaders have probably long since abandoned any real aspirations to the city of Trieste itself, which they must realize to be an economic liability although they probably want to retain the Istrian peninsula. Yugoslav utterances to the contrary may be largely motivated by propaganda considerations.

By his unilateral action, Tito has retarded the recent improvement of Yugoslav-Italian relations, has formally complicated Yugoslavia's relations with the West, and has created a situation where further face-saving moves by Italy and Yugoslavia are necessary. If Italy continues to hew rigidly to its present line demanding the return of the whole of Trieste to Italy, calls upon the Western Powers to implement their March 1948 proposal, and pursues its intention of appealing the question to the UN, both Italian and Yugoslav public opinion will become so aroused as to prevent the concessions prerequisite to any bilateral agreement.

In the absence of any announced intention by Italy and Yugoslavia to arbitrate the Trieste issue, the Kremlin's capability to complicate Yugoslav -Italian-Western relations is enhanced. Should the Soviet Union continue on its present course in support of an international Free Territory under UN auspices, it can publicly deplore sabotage of the

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Italian Peace Treaty by the de facto absorption of Zone B by Yugoslavia and of the Allied Zone by Italy. Such a course would be consistent with the Soviet postwar practice of formal adherence to engagements entered into by the Big Four, despite the Kremlin's repeated violations of the spirit of many such agreements. The Kremlin, moreover, would thus avoid offering Tito the opportunity to exploit further Yugoslav nationalism by pointing to another Soviet sell-out.

On the other hand, the Soviet Union can gain significant advantages by announcing its support of the standing Western proposal to return the whole Territory to Italy. Such a move would complicate Yugoslav relations with Italy and the West during a difficult transition period. It would be calculated to impress upon the Yugoslav people their isolation from both East and West. Moreover, the Soviet Union could thus point to an ostensibly conciliatory gesture toward the West. The importance of the above considerations in the Kremlin's accelerated campaign against the Yugoslav regime, therefore, suggests that the USSR may time an announcement supporting the Western proposal on Trieste to deliver a most effective blow against Tito.